Good Health Healthy Future

ANNUAL REPORT

For the Year Ended 31 December 2017

2017

Annual Report

For the Year Ended 31 December 2017

Company Directory

For the Year Ended 31 December 2017

Company Number	CH/1168773
Issued Capital	195,422,324 Ordinary Shares
Registered Office	3 Desi Place Hillsborough, 8022 Christchurch
Shareholders	Listed on the USX (Unlisted Securities Exchange)
Directors	Dr M G Shepherd Mr K W Fergus Dr W L Burt Mr P W Dobbs
Accountants	Graeme Burnett Accountants Limited Rangiora
Bankers	Bank of New Zealand Limited Christchurch
Solicitors	Wynn Williams & Co. Christchurch
Auditors	Deloitte Limited Christchurch

STATEMENT OF AFFAIRS OF THE COMPANY

For the 12 months ending 31 December 2017, PharmaZen Limited is reporting a post-tax deficit of $285,704 on turnover of $7,304,115. This compares with a post-tax surplus of $426,335 on turnover of $7,663,959 for the prior year.

It was a challenging year for the Company with major delays to the installation of the new 2000kg freeze dryer as a result of building consent being withdrawn, only to be reinstated three months later.

The flow on impact in terms of scheduling build, delivery and commissioning was significant and forced the Company to utilise existing plant to honour commitments to a high volume, low margin contract.

The commitment to producing the material originally destined for the 2000kg dryer in the main factory, reduced available capacity for higher value core products. The issue was only partly mitigated by increased overtime operation. Although this was a less than ideal scenario, the decision was taken on the basis that the contract in question represents a multi-year, multimillion opportunity.

The significantly reduced production of our core products ultimately resulted in approximately $500,000 of sales undelivered at year end and higher manufacturing costs for production.

In 2017 we also experienced significant expenses associated with intellectual property, GMP licences, product development and commissioning trials.

With the Company now moving into its next phase including the development of new products we anticipate an acceleration in investment in intellectual property with significant clinical trial work already scheduled for 2018 and 2019. It is likely the Company will review its capitalisation policy in order that the balance sheet better reflects the significant value in intellectual property that PharmaZen now possess.

The Capital Raise in the last quarter of 2017 was well supported bringing in an additional $2,438,134 which is going to accelerate the completion of current projects.

We are in discussions with strategic partners for additional placements but are under no time pressure to finalise.

OUTLOOK

The extraction facility is now starting to perform to expectations after a year of commissioning, trials, scale-up and finally the retro-fitting of additional equipment.

The extraction facility has produced and sold commercial quantities of all targeted products and during that process numerous areas of improvement, including quality, yield and capacity were identified and addressed.

With the current production levels; we will be generating in excess of $1m in sales from the extraction plant in 2018. Importantly, considerable growth opportunities for extracts have been identified for future years

Commissioning of the new 2000kg dryer at the end of March will be a milestone and it is worth noting that this single dryer has the identical capacity of the four dryers the Company started with in 2002. With the 1000kg dryer back on core products we are on track for a record first quarter.

The outstanding major project to be completed is the licence for the Good Manufacturing Practice (GMP) facility. The building has been completed, we have commenced processing material for validation and have documentation meeting GMP standards.

The GMP licence, which will allow us to produce compliant material as Active Pharmaceutical Ingredients under a licence to manufacture medicines, will mark the completion of the most significant period in the Company's history.

Over the last five years the Company has invested more than $12.2million into new plant and equipment that has shifted the facility from a small freeze-drying factory to a world class operation.

- Freeze Drying Capacity – increased 250%
- Solvent Extraction Facility – capable of producing $10m in revenue per annum
- Building – additional 1200sqm built taking facility to 3200sqm
- GMP Dry powder facility – four standalone milling lines.

With the investment in place, the Company moves into an exciting phase of growth and development well equipped and with justifiable confidence.

STATEMENT OF AFFAIRS OF THE COMPANY (Cont.)

OUTLOOK (Cont.)

The combination of capabilities and capacity that is now in place provides an exceptional opportunity for the Company to increase its presence in the Global Nutraceutical Market.

The Board records its appreciation for the staff effort and commitment throughout the year and in particular, the contribution of our Chief Executive Officer, Craig McIntosh.

PRINCIPAL ACTIVITY

The Company manufactures and sells advanced human and animal nutritional ingredients.

DIVIDEND

No dividend was declared or paid during the period.

DIRECTORS' INTERESTS

Directors' remuneration

Remuneration and other benefits paid or due to the Directors of the Company and receivable during the year, were $55,001 (2016: $55,000).

Directors' loans

There were no loans by the Company to Directors.

Share dealing

During the year no Directors (or their associated entity) acquired or disposed of equity securities in the Company.

SUBSTANTIAL SECURITY HOLDERS

The Company's register of substantial security holders at 31 December 2017.

Name	Number of voting securities
Downie Stewart Trustee Limited – Rutherglen Account	35,077,333
Citibank Nominees New Zealand	29,299,190
Downie Stewart Trustee Limited – Pine Hill Account	25,333,333
Lee Patterson Family Trust Co. Limited	11,557,312

EMPLOYEE REMUNERATION

Two employees received remuneration or benefits in excess of $100,000 as follows:

$110,000 - $120,000	1 employee
$250,000 - $260,000	1 employee

Directors' Responsibility Statement

For the Year Ended 31 December 2017

The Directors are pleased to present to shareholders the financial statements for PharmaZen Limited for the year ended 31 December 2017. The financial statements presented are signed for, and on behalf of the Board and were authorised for issue on the date below.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which materially reflect the financial position of the Company as at 31 December 2017 and the results of its operations and cash flows for the year ended on that date.

The Directors consider the financial statements of the Company have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The financial statements are signed on behalf of the Board by:

M. G. Shepherd

Director

Director

21 March 2018

Income Statement

For the Year Ended 31 December 2017

	Notes	2017 $	2016 $
REVENUE			
Sales	3a	7,304,115	7,663,959
Cost of sales		4,987,492	4,541,469
Gross profit		2,316,623	3,122,490
Other income	3b	101,534	110,991
EXPENSES			
Marketing		415,515	390,613
Occupancy		166,516	183,589
Administrative		556,176	540,315
Consultancy		200,087	109,732
Research and development		209,238	182,643
Finance costs	3c	203,475	155,091
Depreciation	11	591,691	522,989
Loss/(Gain) on disposal of property, plant and equipment		1,843	–
Insurance		272,604	245,207
Other		152,821	237,798
		2,769,966	2,567,977
NET SURPLUS/(DEFICIT) BEFORE TAXATION FROM CONTINUING ACTIVITIES	3d	(351,809)	665,504
Taxation expense/(credit)	4a	(66,105)	239,169
NET SURPLUS/(DEFICIT) FOR THE YEAR		(285,704)	426,335
EARNINGS PER SHARE			
Basic (cents per share)	12	(0.18)	0.27
Diluted (cents per share)	12	(0.18)	0.27

Calculated on a weighted average basis of the number of shares outstanding.

The accompanying notes form part of these Financial Statements.

Statement of Comprehensive Income

For the Year Ended 31 December 2017

	Notes	2017 $	2016 $
Net surplus/(deficit) for the year		(285,704)	426,335
TOTAL COMPREHENSIVE INCOME/(LOSS)		(285,704)	426,335

Statement of Changes in Equity

For the Year Ended 31 December 2017

	Notes	Fully paid ordinary shares $	Retained Earnings $	Total $
Balance at 1 January 2016		8,001,000	(55,063)	7,945,937
Net surplus for the year		–	426,335	426,335
Other comprehensive income		–	–	–
Balance at 31 December 2016		8,001,000	371,272	8,372,272
Balance at 1 January 2017		8,001,000	371,272	8,372,272
Net deficit for the year		–	(285,704)	(285,704)
Contributions of Equity net of Transaction Costs and Tax	12	2,438,134	–	2,438,134
Other comprehensive income		–	–	–
Balance at 31 December 2017		10,439,134	85,568	10,524,702

The accompanying notes form part of these Financial Statements.

Balance Sheet

As at 31 December 2017

	Notes	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents		770,148	134,226
Accounts receivable	7	1,626,453	1,668,719
Prepayments		256,345	208,986
Inventories	8	1,076,154	983,658
Current tax refundable	4c	32,923	–
Total current assets		3,762,023	2,995,589
Non-current assets			
Property, plant and equipment	11	16,508,209	12,945,408
Total non-current assets		16,508,209	12,945,408
TOTAL ASSETS		20,270,232	15,940,997
LIABILITIES			
Current liabilities			
Bank overdraft	10	1,200,000	724,033
Accounts payable and accruals	9	1,213,972	774,716
Current tax liabilities	4c	–	47,728
Borrowings	10	1,647,533	939,754
Total current liabilities		4,061,505	2,486,231
Non-current liabilities			
Borrowings	10	5,228,640	4,561,000
Deferred tax liability	4d	455,385	521,494
Total non-current liabilities		5,684,025	5,082,494
Total liabilities		9,745,530	7,568,725
OWNERS EQUITY			
Share capital	12	10,439,134	8,001,000
Retained earnings	13	85,568	371,272
Total equity		10,524,702	8,372,272
TOTAL LIABILITIES & OWNERS EQUITY		20,270,232	15,940,997

The accompanying notes form part of these Financial Statements.

Cash Flow Statement

For the Year Ended 31 December 2017

	Notes	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to):			
Receipts from customers		7,418,065	7,493,786
Interest received		866	68
Taxation refund received/(paid) - net		(80,652)	(252,001)
Payments to suppliers and employees		(6,692,455)	(6,665,812)
Payment of interest		(203,475)	(155,091)
Net cash inflow from operating activities	19	442,349	420,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from (applied to):			
Proceeds from sale of property, plant and equipment		–	6,352
Payment for property, plant and equipment		(4,095,947)	(2,234,436)
Net cash outflow applied to investing activities		(4,095,947)	(2,228,084)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from (applied to):			
Proceeds from borrowings		2,853,830	5,436,645
Repayment of loans		(278,411)	(3,992,899)
Net Proceeds from issues of shares	12	2,438,134	–
Net cash inflow from financing activities		5,013,553	1,443,746
Net increase/(decrease) in cash and cash equivalents		1,359,955	(363,388)
Cash and cash equivalents at the beginning of the year		(589,807)	(226,419)
Cash and short term deposits at the end of the year		770,148	(589,807)
COMPRISED OF:			
Cash and short term deposits		770,148	134,226
Bank overdraft		–	(724,033)
Net cash		770,148	(589,807)

The accompanying notes form part of these Financial Statements.

1) SUMMARY OF ACCOUNTING POLICIES

Reporting entity

PharmaZen Limited ("PharmaZen" or "Company") is a profit-oriented entity incorporated and domiciled in New Zealand.

The principal activity of the Company is formulating, manufacturing and marketing specialised animal and human health products based on immune protective bioactive components and other novel bioactive ingredients.

As an issuer, the Directors have determined that the Company is a FMC reporting entity.

These financial statements comply with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of preparation

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements have been prepared on the basis that the Company is a going concern (refer Note 2).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements are presented in New Zealand dollars.

Critical judgements and estimates in applying accounting policies

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments to the carrying amount of assets and liabilities in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The key area where judgement is required is:

- Accounts receivable collectability (refer Note 7)
- Going Concern (refer Note 2)

Summary of significant accounting policies

The principal accounting policies applied in the preparation and presentation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of a purchase is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, other than land.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimates of useful lives are used in the calculation of depreciation:

Buildings	6 - 50 years
Furniture, fixtures and fittings	1 - 15 years
Motor vehicles	7 years
Plant and machinery	2 - 44 years

Assets in the course of construction for use in the production, or supply of goods, or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

Other income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured, regardless of when the payment is received. Other income is measured at the fair value of the consideration received or receivable.

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity respectively.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

Goods and services tax (GST)

All items in the balance sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the income statement are stated exclusive of GST.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Accounts receivable

Accounts receivable are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs. Direct issue costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers and printing and distribution costs.

Accounts payable

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

Borrowings

Borrowings are initially recorded at fair value, plus transaction costs and subsequently at amortised cost using the effective interest rate method.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Impairment of financial assets

Financial assets, other than those at Fair Value Through Profit or Loss (FVTPL), are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

Impairment of financial assets (Cont.)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Entity as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

Cash flow statement

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the income statement.

Definition of terms used in the cash flow statement

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing activities are those activities relating to changes in the equity and debt capital structure of the Company and those activities relating to the cost of servicing the Company's equity.

Adoption of new revised standards and interpretations

Standards and interpretations effective in current year

The Company has adopted all standards, interpretations and amendments which became effective in the current year with no material changes to the Company's accounting policies with regard to measurement or disclosure in the financial statements.

Standards and interpretations in issue not yet adopted

The Company has not applied the following new and revised NZ IFRS that have been issued but are not yet effective:

NZ IFRS 9 Financial instruments - periods commencing 1 January 2018
NZ IFRS 15 Revenue from contracts with customers - periods commencing 1 January 2018
NZ IFRS 16 Leases - periods commencing 1 January 2019.

Other standards, interpretations, and amendments on issue but not yet effective are not expected to have a material impact on the Company.

NZ IFRS 16 Leases

NZ IFRS 16 will supersede the current lease guidance including NZ IAS 17 Leases and the related interpretations when it becomes effective for PharmaZen in the 2019 financial year.

NZ IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to

1) SUMMARY OF ACCOUNTING POLICIES (Cont.)

NZ IFRS 16 Leases (Cont.)

be recognised for all leases by lessees (i.e., all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Furthermore, the classification of cash flows will also be affected as operating lease payments under NZ IAS 17 are presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The new requirement to recognise a right-of use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the financial statements and the directors are currently assessing its potential impact. (Refer Note 15 for existing lease commitments).

NZ IFRS 9 Financial instruments

NZ IFRS 9 establishes the principles for hedge accounting and impairment of financial assets. Under NZ IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. In relation to the impairment of financial assets NZ IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes. This standard will be effective for PharmaZen in the 2018 financial year. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete their review.

NZ IFRS 15 Revenue from Contracts

NZ IFRS 15 provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers. This standard will be effective for PharmaZen in the 2019 financial year. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and, recognise revenue when (or as) the entity satisfies a performance obligation. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete their review.

2) GOING CONCERN

After reviewing internal management financial reports and budgets, the Directors believe the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3) SURPLUS FROM OPERATIONS

	2017	2016
	$	$
(a) Revenue		
Trading revenue consisted of the following items:		
Sales of goods	7,304,115	7,663,959
	7,304,115	7,663,959
(b) Other income		
Other income from operations consisted of the following items:		
Grants received	94,330	100,959
Interest	866	68
Rent received	–	1,600
Net gain on disposal of property, plant and equipment	–	3,013
Miscellaneous income	6,338	5,351
	101,534	110,991
(c) Finance costs		
Interest on borrowings	362,240	229,680
Less capitalised interest	(158,765)	(74,589)
	203,475	155,091

Interest costs that are directly attributable to the acquisition of property, plant and equipment have been capitalised at an average interest rate of 4.72% (2016: 4.43%).

	2017	2016
(d) Other expense disclosures		
Net surplus before taxation includes the following specific expenses:		
Directors' fees	55,001	55,000
Operating lease payments (refer Note 15)	190,496	190,898
Inventory written off	2,393	5,732
Employee benefits expensed	1,676,241	1,436,560
KiwiSaver employer contributions	41,686	34,536

4) INCOME TAXES

(a) Income tax recognised in profit or loss

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2017	2016
	$	$
Surplus before taxation	(351,809)	665,504
Income tax expense calculated at 28% (2016: 28%)	(98,506)	186,341
Non-deductible expenses	33,321	40,547
Prior period adjustments	4	–
Other	(924)	12,281
Tax expense	(66,105)	239,169
Recognised as:		
Current tax	4	214,414
Deferred tax	(66,109)	24,755
	(66,105)	239,169

4) INCOME TAXES (Cont.)

(b) Income tax recognised in other comprehensive income or directly in equity

There was no current or deferred tax charged/(credited) directly to other comprehensive income or equity during the period.

(c) Current tax assets and liabilities

	2017	2016
	$	$
Current tax assets:		
Income tax refundable - current year	81,076	–
Income tax payable - prior years	(48,153)	–
	32,923	–
Current tax liabilities:		
Income tax payable - current year	–	(64,413)
Income tax overpaid - prior years	–	16,685
	–	(47,728)

(d) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

2017	Opening Balance	Charged to Income	Closing Balance
	$	$	$
Property, plant and equipment	(561,773)	(44,388)	(606,161)
Losses carried forward	–	97,719	97,719
Employee entitlements	38,490	12,969	51,459
Provisions	1,789	(191)	1,598
	(521,494)	66,109	(455,385)

2016	Opening Balance	Charged to Income	Closing Balance
	$	$	$
Property, plant and equipment	(535,531)	(26,242)	(561,773)
Employee entitlements	36,843	1,647	38,490
Provisions	1,949	(160)	1,789
	(496,739)	(24,755)	(521,494)

A deferred tax asset has been recognised on losses incurred in the year ended 31 December 2017 on the basis that it is probable that sufficient taxable profit will be derived in future years against which the unused tax losses can be utilised.

(e) Imputation credit account balances

	2017	2016
	$	$
Balance at beginning of the year	957,569	726,469
Income tax paid	81,076	252,001
Income tax payable - current year	–	64,413
Income tax payable - prior year	–	(85,314)
Other adjustments	(1,456)	–
	1,037,189	957,569

5) REMUNERATION OF AUDITORS

	2017	2016
	$	$
Audit of the financial statements	27,000	25,232
Other advisory services	3,000	–
	30,000	25,232

6) KEY MANAGEMENT PERSONNEL COMPENSATION

	2017	2016
	$	$
Short-term employee benefits	251,352	270,648
Directors' fees	55,001	55,000
	306,353	325,648

There were no long term benefits, post employment benefits, termination benefits or share based payments.
Key management personnel include Chief Operating Officer and the Board of Directors

7) ACCOUNTS RECEIVABLE

	2017	2016
	$	$
Accounts receivable (i)	1,529,755	1,537,793
Goods and services tax (GST) receivable	96,698	130,926
	1,626,453	1,668,719

(i) The average credit period on sales of goods is 30 days from delivery. There are balances totalling $189,645 included in the Company's accounts receivable balance for debtors which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the Company believes that the amounts are still recoverable (2016: $41,164). The average age of these receivables at 31 December 2017 is 70 days (2016: 109 days). There are no receivables that would otherwise have been past due or impaired whose terms have been re-negotiated. There was no allowance account for credit losses during the period as none was considered necessary (2016: $Nil).

8) INVENTORIES

	2017	2016
	$	$
Raw materials	428,986	373,152
Work in progress	183,042	160,742
Finished goods	464,126	449,764
	1,076,154	983,658

9) ACCOUNTS PAYABLE AND ACCRUALS

	2017	2016
	$	$
Accounts payable	693,755	399,270
Other payables and accruals	197,348	118,115
Employee entitlements	315,028	254,920
Revenue in advance	7,841	2,411
Total accounts payable	1,213,972	774,716

10) BORROWINGS

	2017	2016
	$	$
Total borrowings at beginning of period	5,500,754	4,057,008
Proceeds from borrowings during the year	2,853,830	1,482,015
Loans repaid during the year	(278,411)	(38,269)
Total borrowings at end of period	8,076,173	5,500,754
Borrowing repayable within one year		
At amortised cost		
Secured borrowings	1,002,140	195,731
Bank overdraft	1,200,000	724,033
Secured export trade finance	645,393	744,023
	2,847,533	1,663,787
Borrowing repayable after one year		
At amortised cost		
Secured borrowings	5,228,640	4,561,000
	5,228,640	4,561,000

The secured borrowings mature between 30 October 2018 and 18 November 2021, bear interest at a weighted average rate of 4.72% (2016: 4.60%) and are secured by a mortgage over the Company's land and buildings at Port Hills Road and Nuttall Drive, Christchurch and all present and after acquired property.

The Company entered into an export trade finance facility on 4 June 2015. This is a revolving credit facility allowing the Company to fund up to $1,200,000 of its total debt in foreign currencies where favourable interest rates are available. The weighted average interest rate applying to this facility at 31 December 2017 is 2.83% (2016: 2.95%) The debt is matched to specific sales invoices providing an economic hedge against currency movements and is secured by a mortgage over the Company's land and buildings at Port Hills Road and Nuttal Drive, Christchurch and all present and after acquired property. Repayments under this facility are due at the earlier of the due date for the sales invoice plus 14 days, or 90 days from drawdown.

Cash flow movements relating to this facility have been included on a net basis within the Cash Flow Statement.

Letters of credit

The Company has a Letter of Credit facility securing the payment of wages and salaries to a maximum of $55,000 per pay period (2016: $55,000).

Other borrowings

The Company has bank overdraft facilities with BNZ with overdraft limits totalling $1,950,000 (2016: $750,000). At balance date the amount drawn down on those facilities totalled $1,200,000 (2016: $724,033). Cash and cash equivalents are entitled to be set off against the bank overdraft as required.

All overdraft facilities drawn down as at 31 December 2017, relate to the development of property, plant and equipment and thus have been considered as part of total borrowings. Bank overdraft facilities as at 31 December 2016 formed part of the operational cash management of PharmaZen Limited, and thus were classified as net cash and cash equivalents in 2016. These have been repaid in full in the year ended 31 December 2017.

The Company operates credit card accounts, mainly for travelling expenses, with a combined credit limit of $59,500.

11) PROPERTY, PLANT AND EQUIPMENT

2017	Cost 1 Jan. 2017	Additions	Disposals	Cost 31 Dec. 2017	Accumulated depreciation 1 Jan. 2017	Depreciation expense	Accumulated depreciation reversed on disposal	Accumulated depreciation 31 Dec. 2017	Book value 31 Dec. 2017
	$	$	$	$	$	$	$	$	$
Land	1,911,004	–	–	1,911,004	–	–	–	–	1,911,004
Buildings	4,038,152	555,510	–	4,593,662	(470,919)	(117,763)	–	(588,682)	4,004,980
Plant and machinery	7,671,547	1,107,301	(9,440)	8,769,408	(3,160,271)	(464,610)	9,191	(3,615,690)	5,153,718
Motor vehicles	5,652	2,165	–	7,817	(471)	(912)	–	(1,383)	6,434
Furniture, fixtures, fittings	283,299	17,916	(156,775)	144,440	(261,232)	(8,406)	155,181	(114,457)	29,983
Construction in progress	2,928,647	2,473,443	–	5,402,090	–	–	–	–	5,402,090
Total property, plant and equipment	16,838,301	4,156,335	(166,215)	20,828,421	(3,892,893)	(591,691)	164,372	(4,320,212)	16,508,209

2016	Cost 1 Jan. 2016	Additions	Disposals	Cost 31 Dec. 2016	Accumulated depreciation 1 Jan. 2016	Depreciation expense	Accumulated depreciation reversed on disposal	Accumulated depreciation 31 Dec. 2016	Book value 31 Dec. 2016
	$	$	$	$	$	$	$	$	$
Land	1,911,004	–	–	1,911,004	–	–	–	–	1,911,004
Buildings	3,940,397	97,755	–	4,038,152	(366,950)	(103,969)	–	(470,919)	3,567,233
Plant and machinery	7,348,247	365,473	(42,173)	7,671,547	(2,792,284)	(408,531)	40,544	(3,160,271)	4,511,276
Motor vehicles	1,739	5,652	(1,739)	5,652	(29)	(471)	29	(471)	5,181
Furniture, fixtures, fittings	267,064	16,235	–	283,299	(251,214)	(10,018)	–	(261,232)	22,067
Construction in progress	1,186,678	1,741,969	–	2,928,647	–	–	–	–	2,928,647
Total property, plant and equipment	14,655,129	2,227,084	(43,912)	16,838,301	(3,410,477)	(522,989)	40,573	(3,892,893)	12,945,408

No impairment losses were recorded in 2017 or 2016.

12) SHARE CAPITAL

	2017 No. of Shares	2017 $	2016 No. of Shares	2016 $
Balance at beginning of the period	160,000,000	8,001,000	160,000,000	8,001,000
Contributions of Equity net of Transaction Costs and Tax	35,422,324	2,438,134	–	–
Balance at end of the period	195,422,324	10,439,134	160,000,000	8,001,000

All shares are fully paid ordinary shares and carry equal voting rights. All shares participate equally in any dividend.

In December 2017 the company issued a further 35,422,324 shares at $0.07 per share. The costs incurred in raising this new capital were $41,429. These costs have been offset against the capital raised.

	2017 Cents/Share	2016 Cents/Share
Basic and diluted earnings per share	(0.18)	0.27

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2017 $	2016 $
Net surplus/(deficit) after tax	(285,704)	426,335

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share:

	160,000,000	160,000,000

The shares issued on 18 December (35,346,000) and 29 December (76,324) have not been taken into account in calculating the basic or diluted earnings per share as these share issues had almost no impact on the Company's earnings per share for the year.

13) RETAINED EARNINGS

	2017 $	2016 $
Balance at beginning of the year	371,272	(55,063)
Total comprehensive income/(loss) for the year	(285,704)	426,335
	85,568	371,272

14) RELATED PARTY TRANSACTIONS

There were no related parties, including Directors, that have a significant influence which provided and or received services and or supplies to or from the Company during the period, other than the Directors' remuneration and other key management personnel compensation set out in Note 6.

15) COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments

The Company has committed to contracts for the supply of new plant as part of its programme for broadening and expanding its production capacity. The expenditure committed to, but not yet incurred, as at 31 December 2017 is $250,000 (2016: $2,720,000).

(b) Operating lease commitments

The Company leases office and production premises, a motor vehicle and office equipment in the normal course of business. There were no restrictions imposed by lease arrangements for those assets. There are no sub-lease payments expected to be received at the end of the reporting period.

	2017	2016
	$	$
Not later than one year	149,985	142,017
Later than one year but not later than two years	146,932	137,489
Later than two years but not later than five years	199,117	297,939
Later than five years	2,712	8,136
	498,746	585,581

16) CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities as at 31 December 2017. (2016: $Nil).

17) SUBSEQUENT EVENTS

There have been no material events requiring reporting since balance date.

18) SEGMENT INFORMATION

Products and services from which reportable segments derive their revenues

The Company operates in one industry, being the manufacture and sale of advanced human and animal nutritional ingredients from New Zealand. Raw materials may be of animal, marine or, increasingly, plant origin but the manufacturing process is largely the same with the same plant and equipment being used irrespective of the origin of the raw materials.

The regulatory environment for the Company's products varies in different markets. The Company generally manufactures to specifications and standards that meet the most stringent regulations in order to obtain the greatest flexibility in terms of the market for the product. Although the Company sells to overseas markets in Europe, Asia, United States, Australia and Japan, as well as to the domestic market, no geographical or product information is available and the cost to develop this is excessive. Marketing initiatives target the global market without specific focus on location.

Segment revenues and results

As there is only one reportable segment for the Company, the segment profit or loss represents profit or loss earned for the Company after all costs including administration costs, Directors' salaries, investment revenue, finance costs and income tax expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

18) SEGMENT INFORMATION (Cont.)

Information about major customers

Included in total revenue are revenues which arose from sales to the Company's largest customers as follows:

31 December 2017:
There was one customer that comprised 10 per cent or more of the total revenue with sales of $1,275,037.

31 December 2016:
There were two customers that individually comprised 10 per cent or more of the total revenue with combined sales of $2,383,707.

19) NOTES TO THE CASH FLOW STATEMENT

	2017	2016
	$	$
Reconciliation of net surplus/(deficit) after taxation with net cash flows from operating activities		
Net surplus/(deficit) for the year	(285,704)	426,335
Adjustments for non-cash items:		
Inventory written off	–	5,732
Loss (Gain) on disposal of property, plant and equipment	1,843	(3,013)
Depreciation on property, plant and equipment	591,691	522,989
Movement in deferred taxation	(66,109)	24,755
	527,425	550,463
Movements in working capital:		
Accounts receivable and prepayments	151	(368,175)
Inventories	(92,496)	(95,576)
Employee entitlements	60,108	36,688
Current tax refundable	(80,652)	(37,587)
Accounts payable and accruals	373,902	(98,549)
Movements related to capital expenditure financing	(60,385)	7,351
	200,628	(555,848)
Net cash inflow (outflow) from operating activities	442,349	420,950

20) FINANCIAL INSTRUMENTS

All of the Company's financial assets are recognised as loans and receivables measured at amortised cost. The Company does not have any financial assets recognised as held to maturity, designated at fair value or available for sale.

All of the Company's financial liabilities are measured at amortised cost.

(a) Financial risk management objectives

Exposure to credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Company's business. The Company will from time to time enter into derivative financial instruments to economically hedge an exposure to foreign currency risk. The use of derivatives is governed/overseen by the Directors.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Specific risk management objectives and policies are set out below.

(b) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt (Note 10), cash, cash equivalents and equity; comprising issued capital and retained earnings as disclosed in Notes 12 and 13 respectively.

The Company's Board of Directors reviews the capital structure on a regular basis.

The Company is in compliance with all externally imposed capital requirements in the form of covenant requirements on external borrowings. These covenants relate to tangible asset ratios and earnings before interest and tax cover ratios.

The Company's overall strategy remains unchanged from 2016.

(c) Market risk

Market risk is the potential for change in the value of balance sheet positions caused by a change in the value, volatility or relationship between market risks and prices. Market risk arises from the mismatch between assets and liabilities. The Company's activities expose it primarily to market risk associated with changes in foreign currency rates and interest rates as set out below. The mechanisms to manage these risks are set out below. There have been no changes during the year to the Company's exposure to risk or the manner in which the risks are measured and managed.

(d) Interest rate risk

The Company is exposed to interest rate risk as from time to time it borrows funds at floating interest rates and also invests cash in short term deposits at fixed interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Investments at fixed interest rates expose the Company to fair value interest rate risk. The Company does not hedge this risk.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. The Company does not hedge this risk.

The Company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

20) FINANCIAL INSTRUMENTS (Cont.)

(e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In the course of normal trading activities, the Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

There were no foreign currency hedge instruments in place for this purpose at 31 December 2017 (2016: $Nil), however, the Export Trade Finance facility referred to in Note 10 provides a partial economic hedge against currency movements for the specific sales to which the facility relates.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance date are as follows:

	Liabilities		Assets	
	2017	2016	2017	2016
	$	$	$	$
Euro	281,356	–	514,625	159,564
United States Dollar	339,437	744,023	792,328	1,399,882
Australian Dollar	–	–	35,906	–
Japanese Yen	–	–	50,604	–

The table expresses the foreign currency amounts in New Zealand dollar equivalents using the exchange rate at 31 December 2017 and 31 December 2016.

(f) Other price risk

The Company is not exposed to substantial other price risk arising from financial instruments.

(g) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. The Company has adopted a policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties are monitored on a regular basis.

The Company does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics, except that all cash deposit balances are held with the BNZ, and that in 2017 the Company's four largest customers accounted for 40% of total revenue (2016: 48%) and 50% of total accounts receivable (2016: 60%).

	2017	2016
	$	$
The maximum exposures to credit risk at balance date are:		
Cash and short term deposits	770,148	134,226
Accounts receivable	1,626,453	1,668,719
	2,396,601	1,802,945

20) FINANCIAL INSTRUMENTS (Cont.)

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities using interest rates applying at year end.

The maturity profiles of the Company's interest bearing investments and borrowings are disclosed later in this note.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will accrue to those assets or liabilities.

2017	Weighted Average Effective Interest Rate	Less than 1 Year	1-2 Years	3-5 Years	Total
	%	$	$	$	$
Financial assets:					
Cash and short term deposits	–	770,148	–	–	770,148
Accounts receivable	–	1,529,755	–	–	1,529,755
Financial liabilities:					
Bank overdraft	5.50	1,200,000	–	–	1,200,000
Accounts payable	–	898,940	–	–	898,940
Secured borrowings (including interest)	4.72	1,271,865	1,006,910	4,776,461	7,055,236
Secured export trade finance	2.83	645,393	–	–	645,393

2016	Weighted Average Effective Interest Rate	Less than 1 Year	1-2 Years	3-5 Years	Total
	%	$	$	$	$
Financial assets:					
Cash and short term deposits	–	134,226	–	–	134,226
Accounts receivable	–	1,537,793	–	–	1,537,793
Financial liabilities:					
Bank overdraft	6.04	724,033	–	–	724,033
Accounts payable	–	519,796	–	–	519,796
Secured borrowings (including interest)	4.60	433,402	1,645,327	3,512,608	5,591,337
Secured export trade finance	2.95	744,023	–	–	744,023

20) FINANCIAL INSTRUMENTS (Cont.)

(i) Sensitivity

The Company is exposed to foreign currency risk arising from transactions denominated in currencies other than the Company's functional currency, arising from normal trading activities.

The majority of foreign currency related exposure relates to accounts receivable, mitigated for some foreign receivables by amounts owing under the Export Trade Finance facility. For any foreign receivables financed by the Export Trade Finance facility any unfavourable movements in foreign exchange rates will be offset by a favourable movement in amounts repayable under that facility. The Company is mainly exposed to the Euro, United States Dollar, Japanese Yen and Australian Dollar.

The exchange rates adopted in converting foreign currency denominated assets and liabilities at 31 December 2017 were as follows:

	2017	2016
Euro	0.5900	0.6600
United States Dollar	0.7100	0.6900
Australian Dollar	0.9000	0.9500
Japanese Yen	78.0000	81.0000

Foreign currency exchange rate sensitivity is calculated at balance date assuming that the bank balances and accounts receivable balances denominated in foreign currencies had been converted to New Zealand dollars at rates above or below those adopted as set out above.

If exchange rates had been 10% higher/lower at balance date, and all other variables held constant, the Company's:

- Loss for the 2017 year would decrease/increase by $77,267 (2016 decrease/increase by $142,569);
- Equity for the 2017 year would decrease/increase by $77,267 (2016 decrease/increase by $142,569).

(j) Fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The Directors are responsible for the Corporate Governance of the Company. The Corporate Governance processes set out in this statement outline the governance policies and practices followed by the Company.

FINANCIAL STATEMENTS

The Directors are responsible for ensuring the financial statements materially reflect the financial position of the Company as at 31 December 2017 and its financial performance and cash flows for the year ended on that date. The external auditors are responsible for expressing an opinion on the financial statements, based on their assessment of the conclusions drawn from evidence obtained during the course of the audit.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

After reviewing internal management financial reports and budgets, the Directors believe that the Company will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

BOARD OF DIRECTORS

The Board of Directors of PharmaZen Limited is elected by the shareholders to supervise the management of the Company. The Board establishes the Company's objectives, strategies for achieving these objectives, the overall policy framework within which the business of the Company is conducted, monitors management's performance and ensures that procedures are in place to provide effective internal financial control. The day-to-day management responsibilities of the Company have been delegated to the Chief Executive Officer.

The Directors have a diverse range of expertise and experience, and are committed to use this to benefit the Company.

The primary responsibilities of the Board include:

- The approval of the annual financial report;
- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- Succession planning for the Chief Executive Officer and the Board;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a regular basis;
- Monitoring environmental, social and economical performance;
- Ensuring that the Company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities;
- Ensuring legislative compliance;
- Monitoring executive management;
- Communicating with stakeholders.

BOARD MEMBERSHIP

The Board currently comprises four non-executive Directors including the Chairman. Three formal Board meetings and monthly operational meetings were held during the financial year.

CODE OF CONDUCT

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct as part of a Directors' Operations Manual to guide Directors and management in carrying out their duties and responsibilities. The Directors' Operations Manual covers such matters as:

- Corporate governance matters;
- Role of the Board and Composition of the Board;
- Director responsibilities;
- Appointment of, responsibilities of, and remuneration of a Chief Executive Officer;
- Confidentiality and the safeguarding of Company information;
- Compliance with laws and regulations;
- Shareholder participation.

Newly elected Directors are required to familiarise themselves with and comply with the Directors' Operations Manual. Training is also provided to new and existing Directors, where this is required, to enable Directors to fulfil their responsibilities.

CONFLICTS OF INTEREST

All Directors must disclose any specific and general interests which could be in conflict with their obligations to PharmaZen Limited.

SUB COMMITTEES

Given the size of the Board, there are no sub committees. Rather, the full Board is involved in the Director nomination process, liaison with the Company's external auditors and other corporate financial matters.

The Directors' Operations Manual sets out a written charter in relation to:

- Appointment of external auditors;
- Monitoring the external audit of the Company's affairs;
- Reviewing the annual financial statements;
- Reviewing the Company's internal controls and systems.

The Board receives reports from the external auditors concerning any matters which arise in connection with the performance of their role. The full Board also monitors the independence of the external auditors and reviews and approves any services provided by the auditors other than in their statutory role.

Independent Auditor's Report

Deloitte.

To the Shareholders of PharmaZen Limited

For the Year Ended 31 December 2017

Opinion

We have audited the financial statements of PharmaZen Limited (the 'Company'), which comprise the Balance Sheet as at 31 December 2017, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cashflow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 6 to 27, present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of other advisory services, we have no relationship with or interests in the Company. These services have not impaired our independence as auditor of the Company.

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

M. Hoshek

Mike Hoshek, Partner
for Deloitte Limited
Christchurch, New Zealand
21 March 2018

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Good Health Healthy Future

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